EX PARTE OR LATE FILED

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 12, 1997

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Re: EX PARTE - (CC Docket No. 96-45) - Federal-State Joint Board On Universal Service

Dear Ms. Salas:

On March 11, 1998, Mark Lemler and I, of AT&T, met with C. Keller, R. Loeb, L. Gelb, N. Wales, B. Wimmer, B. Clopton and E. Hoffnar of the Universal Service Branch of the Common Carrier Bureau. AT&T discussed its position relative to high cost funding, as previously discussed by AT&T at the March 6, 1998 EN BANC hearing. The attached material formed the basis of the presentation.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

Brian W Masterson

Attachment

cc: C. Keller, R. Loeb, L. Gelb, N. Wales, B. Wimmer, B. Clopton, E. Hoffnar

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List ABCDE

Components Of High Cost Fund

(In Millions)

	Current Fund				AT&T Proposal			
	Rural	non-major non rural	major non rural*	Total	Rural	non-major non rural	major non rural*	Total
USF	609	103	114	826	609	103	-0-	712
DEM	427	-0-	-0-	427	427	-0-	-0-	427
LTS	347	124	-0-	471	347	124	-0-	471
TOTAL	1382+	227	114	1724	1382+	227	-0-	1610

*includes RBOCs, GTE & SNET

+does not total due to rounding

PRESENTATION
OF
JOEL LUBIN, AT&T CORP.
TO
CC DOCKET 96-45 UNIVERSAL SERVICE EN BANC (3/6/98)
ON
25/75 FEDERAL/STATE RESPONSIBILITY FOR HIGH COST SUPPORT

I am Joel Lubin, Law and Public Policy Vice President for AT&T, and I am responsible for the development of AT&T policy positions on universal service and access charge reform matters. Thank you for giving me the opportunity to appear before you today.

Before I address the specific question of how responsibility for universal service high cost support should be allocated between the FCC and the state commissions, I want to comment briefly on what I believe is the overriding issue that both federal and state regulators must confront. The level of *all* universal service support subsidies, whether for high cost, low-income, or schools, libraries and rural healthcare, must be kept to appropriate levels to reduce the impact of the program on consumers' telecommunications bills. If regulators are unable to contain these subsidies within acceptable levels, the programs will suffer because of lack of public support.

Currently, the size of the USF is forecasted to be approximately $4.9 billion, assuming the size of the high cost component remains unchanged, and if, as expected, the collection rate for the schools, libraries and rural healthcare programs is increased to the $2.65 billion annual level. In addition, the overall size of the fund could increase again on January 1, 1999 as we move to implement a proxy model-based approach for determining high cost support for non-rural local exchange carriers (LECs).

The ultimate size of the fund should be of concern to all of us, for two reasons: (1) the size of the fund will impact telecommunications services prices paid by consumers, and (2) long distance carriers and their customers are paying about 93 percent of the LEC obligations, in addition to their own. This is not competitively neutral.

The ultimate size of the Federal fund will be a function of the 25/75 percent factor, the proxy model selected, and the geographic area used to identify the need for high cost support.

Frankly, the 25/75 federal-state split, while an important issue, is just one of many critical issues that must be addressed to keep the universal service program no larger than necessary, properly targeted, and manageable.

Given the proxy model approach, AT&T believes that a new Federal fund premised on providing 25 percent support assessed on interstate revenues versus 100 percent assessed on combined revenues is preferable because it gives the states appropriate flexibility to have their own funds and avoids preemption and federal/state jurisdictional disagreements. The 25/75 percent issue will be less of a concern if the size of all funds are established at appropriate levels. Let me explain what I mean.

The FCC's high cost support mechanism was based on the fundamental premise that *robust* local competition, and the substantial erosion of the most profitable segment of the incumbent LECs' customer base, would necessitate a system of explicit support to maintain affordable local rates. Unfortunately, the major incumbent LECs (namely, the RBOCs, GTE, and SNET) have repudiated the compromise struck by the 1996 Act. They have made it clear that they want all the benefits, including new revenue streams from universal service assessments (which are ultimately borne by end users) and, in the case of RBOCs, from entry into long distance. At the same time, they are unwilling to assume any of the burdens, including the obligation to open markets to their competitors (through provision of unbundled network elements and other means) or to reduce access charges.

The current FCC approach to high cost support, which includes determination of support on a wire center, or other disaggregated level, plays into the Major ILECs' strategy by promising substantial new payments labeled as "subsidies," while permitting them to keep 100 percent of the profits they collect in non-high cost areas. Major ILECs simply have no need for such subsidies, which are nothing more than new taxes paid by every consumer without creating the real opportunity for local exchange competition. Their telecommunications service revenues, measured at the study area level, are more than sufficient to cover costs, even without taking access contribution into account.

Accordingly, AT&T now urges the Commission to delay the transition to the cost proxy methodology for determining high cost support for the Major ILECs, which is scheduled to begin on January 1, 1999, at the very least until these companies have opened their markets to robust and widespread local competition.[1] If the Commission nonetheless proceeds with a proxy methodology, despite the absence of local competition, it should use study area level disaggregation to determine the subsidy for all LECs.

Thank you.

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1 The federal high cost funding requirement anticipated for calendar year 1998, approximately $1.72 billion for the combined USF, DEM, and LTS programs, should continue, with the exception that $114 million of USF support targeted for the Major LECs be withheld.